



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

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December 15, 2011

KRISTINE CAZADD
Executive Director

VIA INTERNET

Dear Interested Party:

The Audit Manual (AM) is a guide for the Board of Equalization (BOE) staff in conducting tax and fee audits. It is located at the BOE web page <http://www.boe.ca.gov/sutax/staxmanuals.htm> and is available to the public.

SUTD is proposing to add a new section, 0442.00 to AM Chapter 4, *General Audit Procedures*, to incorporate existing policies and procedures for conducting cooperative audits. The full text of the new AM section is displayed on the following page for the convenience of interested parties who may wish to submit comments or suggestions.

You may contact the BOE at AM.RevisionSuggestions@boe.ca.gov for any comments or suggestions related to the proposed new AM section. Your comments or suggestions must be received by BOE no later than **February 15, 2012** in order to be considered by staff. Thank you for your consideration.

Sincerely,

Susanne Buehler, Chief
Tax Policy Division
Sales and Use Tax Department

COOPERATIVE AUDITS

0442.00

An audit transfer without transfer of control occurs in interdistrict cooperative audits where the controlling district office assigns a portion of an audit or a related audit to one or more cooperating district offices. In this case, the controlling district office consolidates the audit findings and transmits the completed audit to ADRS.

An interdistrict cooperative audit is an audit with participation by auditors from more than one district office. It occurs under the following conditions:

- A district office starts an audit and transfers that audit to another district office for completion.
- A portion of an audit or a related audit is assigned to another district office.

Where the taxpayer's or related account's records are located in more than one district office, the audit is coordinated by the controlling district office. Generally the controlling district office is in the best position to obtain information with regard to the overall functioning of the operations of the accounts involved. In most cases, the DOA is the controlling district.

RESPONSIBILITIES OF THE CONTROLLING DISTRICT OFFICE

0442.02

The controlling district office assigns a portion of an audit or a related audit to cooperating district offices, consolidates the findings and transmits the completed interdistrict cooperative audit to ADRS. In addition, the controlling district office is responsible for the following:

1. General review to verify that the cooperating district offices followed the procedures outlined and made their respective portion of the audit in a consistent and uniform manner.
2. Completion of the final Form [BOE-197](#).
3. Conducting an exit conference to discuss consolidated audit findings.
4. Transmittal of the completed audit to ADRS, with a copy to the DOA if different than the controlling district.
5. Forwarding of the AWP's to the DOA, if different from the controlling district, after the Notice of Determination becomes final.

Instructions to cooperating district offices should contain sufficient detail to ensure all phases of an audit are handled uniformly and for the same audit period. The anticipated degree of difficulty or complexity of an audit must be taken into account when providing cooperating district offices such instructions.

Assignments to cooperating district offices are transmitted by Form [BOE-204](#), *Interdistrict Cooperative Audit - Audit Verification*. Form [BOE-204](#) should include specific instructions including the following information:

1. A brief description of the taxpayer's operations.
2. The name and phone number of the person to be contacted at the taxpayer's office.
3. Audit procedures that have been or will be performed by the controlling or cooperating district offices.
4. Specific verification instructions, such as test periods. The cooperating

district office should follow these instructions unless there is a compelling reason why this cannot be done. When the cooperating district office finds that any of the instructions are not appropriate, it should discuss alternatives with the controlling district office.

5. Informative matter that may pertain to unusual transactions, such as areas of potential error. This may include information on the taxability of fixtures and equipment when the audit is a close-out, selling prices, type of clientele, etc.
6. Information pertaining to Form [BOE-122](#), Waiver of limitation.

RESPONSIBILITIES OF THE COOPERATING DISTRICT OFFICE

0442.04

A cooperating district office will give priority to requests from a controlling district. It must follow the specific instructions as expeditiously as possible. Any significant deviations must be discussed with the cooperating district. In addition, the cooperating district office is responsible for the following:

1. Discussion of the audit findings with the local representative of the taxpayer, with copies of AWP's provided to the representative
2. Review of the work assigned to and completed by the cooperating district office. It is the responsibility of the cooperating district office reviewer to ensure that the partial audit is accurate and complete in the same manner as a completed audit report. The reviewer should also ascertain that the partial audit was completed as instructed by the controlling district office.
3. Preparation of Form [BOE-204](#) and preliminary Form [BOE-197](#).

Interdistrict AWP's must conform to procedures set forth in AM Chapter 3, *Audit Working Papers*. In addition, the AWP's must include a summary of differences established by each cooperating district office and the letters identifying the district office must precede the index on the AWP's. The AWP's, Form [BOE-204](#), and the preliminary Form [BOE-197](#) are to be forwarded to the controlling district office.